

**REGULAR STATE CREDIT UNION BOARD MEETING
HELD BY CONFERENCE CALL
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

September 3, 2004

The regular meeting of the State Credit Union Board was called to order by Chairman Karsky in the Office of the Commissioner, Department of Financial Institutions, 2000 Schaffer Street, Suite G, Bismarck, North Dakota, at 9:35 a.m., Friday, September 3, 2004, by conference call.

MEMBERS PRESENT: Timothy J. Karsky, Chairman (*Office*)
Judy A. Millar, Member (*West Fargo*)
Ervin E. Mund, Member (*Bismarck*)
Melanie Stillwell, Member (*Williston*)
Steven S. Tonneson, Member (*Minot*)

MEMBERS ABSENT: None

ALSO PRESENT: Robert J. Entringer, Secretary (*Office*)
Jim Laidlaw, Chief Examiner – Credit Unions (*Office*)
Kermit Larson, North Dakota Credit Union League (*Office*)
Denton Zubke, Dakota West Credit Union (*Watford City*)

MINUTES PREVIOUSLY APPROVED BY MAIL

The minutes for the regular meeting of June 4, 2004, and the special meetings of July 9, 2004, and August 25, 2004, had been previously mailed to the Board and approved.

DAKOTA WEST CREDIT UNION, WATFORD CITY – APPLICATION TO ESTABLISH A BRANCH IN WASHBURN

Chairman Karsky indicated he did not include a Memorandum with the application and would ask Denton Zubke, CEO of Dakota West Credit Union, to review the application. Chairman Karsky also noted that the application does not indicate a location; however, CEO Zubke did send a letter stating the specific location.

CEO Zubke indicated the credit union has signed an agreement to purchase a piece of property that is located on the Frontage Road that runs parallel to Highway 83, and the legal description is Lot 1, Block 1, Parkway First Addition. CEO Zubke indicated the reason for applying for this branch location relates to the merger with the Turtle Lake Credit Union a few years ago, and at the time the Turtle Lake Credit Union was struggling financially and also with staffing. Subsequent to the merger the branch in Turtle Lake has not grown substantially, and the credit union decided by putting a branch in Washburn it would help stabilize the branch in Turtle Lake. Also, the credit union does have some members in Washburn.

CEO Zubke indicated the credit union is heavily involved in the western part of the state, and also by establishing a branch in Washburn it helps to diversify its economic base.

Chairman Karsky inquired about the projections for depreciation and asked if those were based on the purchase price set for the land and construction of a building. CEO Zubke indicated that was correct and stated they had targets as far as what they wanted to spend for a building and staffing, which they are holding true to those projections.

Member Mund inquired as to what they are estimating for building costs and CEO Zubke indicated approximately \$450,000-\$500,000, which does not include the land.

Chairman Karsky referred to the projections which estimate a profit for the first year of operation. CEO Zubke stated apparently there was an error, as the credit union is not projecting a profit until the third year.

Chairman Karsky reviewed the requirements under Chapter 13-03-15 of the North Dakota Administrative Code, Branching. Chairman Karsky stated pursuant

to Section 13-03-15-03(2) branches of an open charter credit union must be located within the geographical boundaries which are authorized by the charter. Chairman Karsky indicated this branch is within the credit union's current field of membership. The additional criteria found under 13-03-15-04 includes that the approval to establish the branch must be given by the Board of Directors of the credit union, which was done on June 23, 2004. Once the credit union Board of Directors has approved the branch, the application must be submitted to the State Credit Union Board. The application was received on June 25, 2004. Notice of the application was published according to the North Dakota Administrative Code in McLean County, and comments were received from the North Dakota Bankers Association and Independent Community Banks of North Dakota. The notice did specify that the application would be considered at this meeting and the time was noted. Additional criteria the Board must consider is if the branch is for an open charter and if the application to establish the branch is accompanied by an application to expand the field of membership, the boundaries must be clearly spelled out; however, an application to expand the field of membership is not included. The Board must also consider the negative impact to any other state or federally chartered credit union in North Dakota. CEO Zubke indicated the only comments he has received were from the Riverdale Federal Credit Union, and indicated they have come to an agreement of which the State Credit Union Board will be aware of in the near future. Chairman Karsky indicated we have not received any negative comments from any other state or federally chartered credit unions. If the branch application is for an open charter, the Board must consider whether the area being considered is satisfactorily served by a currently operating credit union. Chief Examiner Laidlaw indicated there is no other credit union in Washburn at this time. The credit union must also demonstrate the ability to succeed with the branch and as noted, the projections indicate anticipated profitability by year three of the operation.

Chairman Karsky asked CEO Zubke how accurate he felt the projections were, and CEO Zubke stated he felt the numbers were very realistic, particularly in light of the staff person he has hired who he feels will be integral in establishing this branch and getting it operational and at a positive net income. CEO Zubke indicated he feels with this staff person it is very possible they could turn the income positive sooner than what is projected.

Member Tonneson inquired as to how many members currently reside in Washburn and CEO Zubke indicated he did not research that, but estimated it would be less than 100.

Member Stillwell asked if the branch in Turtle Lake is not doing very well why the credit union feels a branch in Washburn would do better. CEO Zubke indicated he needed to clarify that the branch in Turtle Lake is doing okay, but not as well as expected. CEO Zubke indicated he would like to see some growth in the Turtle Lake branch net income, which now basically exists; however, it is not a drain to the credit union. CEO Zubke stated he feels the success of the Turtle Lake branch will be limited, but by gaining a greater presence in the area, that will subsequently help the Turtle Lake branch. CEO Zubke indicated the rationale goes back the last four or five years, noting that every time he drove through Washburn he wondered why no credit union had established a branch there. He continued there is only one financial institution in Washburn at this time, it is good ag country, a lot of consumers are commuting to Bismarck, and finally decided it was time that the credit union establish a branch there.

Chairman Karsky indicated the express need is identified in the application, as well as the field of membership is outlined. Chairman Karsky asked Chief Examiner Laidlaw if he had any concerns regarding the application, and Chief Examiner Laidlaw indicated he thought it was a good move for the credit union.

Member Millar asked how far Washburn is from Turtle Lake, and CEO Zubke indicated it is approximately 21 miles. Member Millar asked if the credit union plans to keep the Turtle Lake branch open and CEO Zubke indicated yes.

Chairman Karsky indicated everyone had received the comment letter from the North Dakota Bankers Association, wherein Counsel Marilyn Foss outlines why the State Credit Union Board should not approve this application. CEO Zubke indicated everyone is familiar with the comment letters from Counsel Foss, and within the letter she refers to Section 6-06-07 of the North Dakota Century Code and her specific comments relate to the field of membership and how well defined the field of membership is. CEO Zubke indicated he feels the field of membership of Dakota West Credit Union is very well defined and beyond that, the fact that he is not asking for an expansion of field of membership makes the objection of Counsel Foss non-applicable.

Member Tonneson asked how far the field of membership for the Turtle Lake branch goes beyond Washburn. CEO Zubke indicated it extends about 35 miles south and west of Washburn. Member Tonneson asked whether the field of membership extended into Bismarck/Mandan, and CEO Zubke indicated it actually

does include Bismarck/Mandan and has been that way for years. He stated when the credit union was merged into Watford City the field of membership was kept because the credit union did have members who lived in Bismarck/Mandan. CEO Zubke indicated he did look at the additional area it would cover by adding a 50 mile radius of Washburn and felt it would not add anything because they do not have any members in that area, and did not feel from an economic standpoint that it would benefit the operation of the credit union. CEO Zubke indicated it made more sense to establish the branch in Washburn and leave the field of membership as is.

Chairman Karsky indicated the Department also received a comment letter from Don Forsberg, Executive Director of the Independent Community Banks of North Dakota. Executive Director Forsberg's letter urges the State Credit Union Board to deny the application because there is no evidence of an underserved population in the area; Dakota West Credit Union is another community credit union that would not pay taxes on its earnings which would negatively impact the community's budget; and that the credit union is not subject to the recordkeeping requirements of the Community Reinvestment Act. Chairman Karsky indicated it is not the role of the State Credit Union Board to address the issue of taxation of credit unions or whether the credit union comes under the federal guidelines for community reinvestment.

The issue of the underserved population was turned over to CEO Zubke for response. CEO Zubke indicated in every community he has been involved with he has found an underserved population, as many of these individuals are going out of the area to another financial institution, and you have a class of people that are not served by a financial institution whether it is due to fees and charges or otherwise. CEO Zubke indicated the Dakota West Credit Union has always tried to be responsive to the entire community, whether it is individuals just below the poverty line or wealthy individuals. CEO Zubke indicated he did not feel this was a valid argument.

It was moved by Member Millar and seconded by Member Mund to approve the application by Dakota West Credit Union, Watford City, to establish a branch in Washburn. The motion was unanimously carried.

CEO Zubke left the meeting at this time.

MED PARK CREDIT UNION, GRAND FORKS – APPLICATION TO EXPAND ITS FIELD OF MEMBERSHIP

Chairman Karsky indicated the present field of membership for Med Park Credit Union, Grand Forks, is limited to Med Park employees and members of their immediate families or household. The problem, however, is that Med Park Hospital no longer exists and for the last several years the credit union has been serving the medical community in Grand Forks, and its field of membership really does not identify the medical community as potential members. Chairman Karsky indicated this application redefines the field of membership to encompass what the credit union has been doing for the last several years. Chairman Karsky indicated he had been speaking with Greg Tschider over the last year trying to identify how to resolve this situation and it was concluded the best way to handle this was to expand the field of membership.

Chairman Karsky indicated Kermit Larson may be able to shed some light on this application. Mr. Larson indicated one of the problems is the credit union's field of membership does not include the "once a member always a member" language. Chairman Karsky indicated the credit union remains a closed charter, but more definitively identifies who is eligible for membership in the credit union.

Member Tonneson noted that the "once a member always a member" language was not included in the proposed new field of membership, and Chairman Karsky stated if the credit union wanted to add that language later, it could be done.

Chairman Karsky noted that Chief Examiner Laidlaw indicated once an employee leaves and is no longer on payroll deduction sometimes these closed charter credit unions do not want them as members anymore.

Assistant Commissioner Entringer noted that in the Memorandum the key items to note are: it is remaining a closed charter credit union, and as Mr. Tschider indicated in his letter, it is probably more a redefinition of the field of membership rather than an expansion because Med Park Hospital no longer exists.

With respect to negative impact on any other state or federally chartered credit union, the Department has not received any comments. With respect to the credit union's ability to succeed, on the application the credit union has indicated no change and because the credit union has been using this field of membership the past several years, there is not any anticipated change.

Assistant Commissioner Entringer continued that the Board of the credit union voted on this application with all 34 members present and voting in favor; and the Department received the application on July 26, 2004, with the amendment to the bylaws on August 24, 2004. Notice of the application was published in the Exponent, the official newspaper for Polk County, Minnesota, on August 4, 2004, and in the Grand Forks Herald on August 3, 2004.

Assistant Commissioner Entringer indicated the Department recommends approval of the application.

It was moved by Member Mund, seconded by Member Tonneson, and unanimously carried to approve the application to expand field of membership of Med Park Credit Union, Grand Forks.

The Board went into closed session at 10:02 a.m.

Timothy J. Karsky, Chairman

Robert J. Entringer, Secretary